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ZNR UUUUU ZZH
P 151423Z FEB 08
FM AMEMBASSY SAN SALVADOR
TO RUEHC/SECSTATE WASHDC PRIORITY 9011
INFO RUCNWTO/WORLD TRADE ORGANIZATION COLLECTIVE
RUCPDO/DEPT OF COMMERCE WASHINGTON DC
RUEHBS/USEU BRUSSELS

UNCLAS SECTION 01 OF 02 SAN SALVADOR 000185

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E.O. 12958: N/A

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SUBJECT: WTO DEMARCHE - U.S./EC TAFT GOODS PROPOSAL

REF: SECSTATE 12905

11. (U) SUMMARY. Deputy Econ Counselor and European Union Head of Mission Wouter Wilton jointly delivered reftel demarche to Francisco Lima, El Salvador's Ambassador to the WTO, on February 13. Lima was accompanied by staff from the Ministry of Economy's CAFTA-DR office. Lima also raised El Salvador's concerns about small, vulnerable economy (SVE) provisions, the erosion of preferences, and the preservation of bilateral gains in a multilateral context. END SUMMARY.

DEMARCHE DELIVERED

12. (SBU) Lima said that El Salvador is always very supportive of initiatives like the textile, apparel, footwear, and travel goods (TAFT) proposal, which are in accordance with El Salvador's internal standards and involve textile items that are very important for El Salvador. He emphasized that the TAFT proposal needs to facilitate the flow of goods, not create additional requirements. Some parts of the current proposal appear to create additional requirements and/or are difficult to see how they facilitate trade. Lima thought that these will be addressed in due time in Geneva; if they are clarified, El Salvador could then be in a position to co-sponsor the proposal. Lima also stressed that El Salvador views the TAFT proposal as a part of the broader non-agricultural market access (NAMA) negotiations and it needs to be considered in that context.

ES: STUCK BETWEEN BILATERAL AND MULTILATERAL DEMANDS

13. (SBU) Beyond the TAFT proposal, Lima asked for two broader points to be conveyed to Washington and Brussels. First, Lima said that El Salvador was very grateful for US/EU support for small, vulnerable economies (SVEs), since the provisions for SVEs are what allows El Salvador to contribute in multilateral negotiations. He thought progress had been made for SVEs on the agricultural side but more needs to be done on NAMA, especially "with the numbers." El Salvador views bilateral and multilateral negotiations as two different worlds -- El Salvador is "on offense" in bilateral negotiations but "on defense" in multilateral. In bilateral agreements, El Salvador benefits from contingent rules, time tables, and phase-ins for opening its market, and El Salvador wants to preserve its bilateral achievements and move at its own pace. Lima cited El Salvador's poultry sector, which has been difficult to open even under CAFTA-DR, as one that would be extremely difficult to open in a multilateral context.

¶4. (SBU) Second, Lima emphasized El Salvador's concerns about erosion of preferences. Some NAMA proposals list specific products, like textile/apparel and fish products, for special and differential treatment. These are precisely El Salvador's export profile under CAFTA and the proposed EU-Central American association agreement, and El Salvador wants to preserve its FTA benefits. Lima also specifically referenced strict rules of origin and the Hong Kong Declaration, since El Salvador is dependent on certain unilateral preferences on rules of origin. This is a major concern for El Salvador, he noted, and they have not seen much support from the US or EU.

¶5. (SBU) Lima stated that El Salvador understood it was not the "goal" for the US or EU in WTO negotiations, but "we are in the middle." He noted that "small issues" may not be the breaking point for the US or EU, but they are for El Salvador. El Salvador will continue to "work constructively" but its concerns need to be addressed. If El Salvador has US/EU support and its interests are properly covered, it doesn't need to "raise its voice," but if it doesn't, El Salvador will speak out "so you're aware."

COMMENT

¶6. (SBU) The meeting with Lima confirms Post's sense -- shared by the EU -- that the primary responsibility for El Salvador's WTO policy has been delegated to him in Geneva. In addition to CAFTA-DR, which El Salvador still considers its most important trading agreement, two other bilateral agreements may affect El Salvador's WTO negotiating position going forward. The first is the Central American-European Union Association Agreement, which starts its second round at the end of February in Brussels. The second is a possible

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Brazil-El Salvador FTA, which is rumored to be in very early stages of negotiation.

GLAZER